Abstract

This article proposes two financing plans to address what the author identifies as the two primary concerns in the child care field: (1) a child allowance for poor and near-poor households to address the child care problems of low-income families, and (2) a program of voluntary parental leave, available to all parents at child birth or adoption, to ensure the adequacy of infant care.

The child allowance plan would cover the first three children in families up to 175% of the poverty level (more than 22 million children) at an annual cost of $45 billion. The author suggests that the allowance could be financed by redirecting funds from existing income support (for example, Aid to Families with Dependent Children), tax credit, and tax deduction programs.

Financing the parental leave program would require new revenues, generated by an employee-paid increase in payroll tax totaling 3.5%. Each employee’s contributions would create a parental leave account (PLA). Families could use the funds in these accounts to cover the cost of a one-year leave from work after the birth or adoption of a child. If families did not have enough dollars in their accounts to cover the cost of the leave, the federal government would extend a low-interest loan to them, which they would have to pay back. The amount individuals receive through Social Security would be adjusted upward or downward according to the balances in their parental leave accounts at retirement.

The author suggests that both proposals would help parents balance work and family obligations and protect parental freedom of choice over the care and upbringing of their children.

The articles in this journal highlight many issues about the cost, quality, and availability of child care, yet two topics stand out as of particular concern: the delivery of child care services to children from low-income families and the provision of infant care. As detailed in the articles by Cohen, Stoney and Greenberg, and Hofferth, the problems associated with funding and delivering child care services to low-income families have been long recognized. Public funding of child care for low-income families
is scattered across local, state, and federal programs with administrative responsibility equally splintered among primarily state and local agencies. The current system of supporting the child care needs of low-income households is a confusing mosaic of disparate programs which results in many seams and gaps in coverage.

Providing adequate, affordable, and appropriate infant care remains a persistent and growing problem; more than 50% of infants receive some form of nonmaternal child care, most for 30 hours or more per week.\textsuperscript{1} As Helburn and Howes and Hofferth report in their articles, care for infants is expensive;\textsuperscript{2} much of it is supplied by family child care providers or unregulated caregivers and is of mediocre to poor quality. Preliminary research suggests that receiving full-time (more than 30 hours per week) nonparental child care may sometimes have a deleterious effect on children younger than one year of age.\textsuperscript{3}

These concerns make it necessary to rethink how child care is financed in the United States. This article proposes two changes in the current structure of public financing of child care: (1) A child allowance for poor and near-poor households to address the child care problems of low-income families, and (2) a program of voluntary parental leave, financed by individual contributions and available to all parents at child birth or adoption, to ensure the adequacy of infant care. Both the child allowance and the parental leave program would help parents balance their family and work obligations. The child allowance program would augment the resources of low-income households to meet the immediate needs of the household to protect the welfare of children. The parental leave program would help all families balance their long-term family and work obligations by providing a mechanism for families to draw on future resources to stay home with infants.

Financing the child allowance will require an integrated approach with sweeping changes to redirect funds from a variety of programs that serve families and children. Financing the parental leave program will require new revenues, generated by an employee-paid increase in payroll tax.

The next section provides the broad rationale for the two proposals. Subsequent sections present the details of the plans and their proposed implementation, administration, and funding; the strengths and weaknesses of each proposal and some alternative plans; and the expected consequences of the proposed policies for the child care system and for families.
**Background and Policy Considerations**

During the past 30 years, a quiet revolution has occurred as increasing numbers of women have joined the work force. Between 1960 and 1993, the percentage of married women who worked outside the home rose from 30.6% to 59.6%. (See Figure 1 in the article by Cohen in this journal issue.) In 1993, 54% of women with a child under age two, 58% of women with a preschool-aged child, and 75% of women with a school-aged child worked outside the home. Part-time employment opportunities have increased, but most women work full-time. (See also the article by Hofferth in this journal issue.)

**Child Care Needs of Low-Income Families**

The increase in the percentage of women in the labor force has had a dramatic effect on federal policies designed to support low-income families. The basic income support programs (for example, Aid to Families with Dependent Children [AFDC]) were developed when it was unusual for women with children, especially young children, to work outside the home. (See the article by Cohen in this journal issue.) With many more women in the work force today, it now seems unfair to subsidize only low-income mothers to stay home with their children.

However, the current AFDC system may actually discourage women from entering or staying in the work force. As welfare reform debates have highlighted, AFDC benefits decline, sometimes precipitously, as AFDC recipients begin to work. Although there is great variation across states, typically, AFDC recipients lose one dollar in benefits for each dollar of income they earn above a threshold level of income. These reductions can mean decreases in cash benefits of 60% to 65%. In addition, 12 months after an aid recipient leaves the program rolls, benefits designed to ease the transition from welfare to work begin to end, and former AFDC recipients and their families begin to lose subsidized access to medical care and child care.

Child care is costly, and individuals in low-wage jobs, whether they have just left AFDC or not, may decide that even modest child care fees make work unprofitable. For these individuals, some subsidies are necessary to make child care affordable and to make work possible. Once that notion is accepted, the only question is whether the subsidies can be delivered in a way that meets children’s needs while retaining an incentive for parents to work. The child allowance proposed in this article offers income support to needy families while retaining incentives for self-sufficiency.

**Child Care Needs of Infants**

As more women with very young children have entered the work force, the need for infant child care has increased. Yet, the pernicious “trilemma” of child care—the fact that the cost, availability, and quality of child care are so closely related that affecting one without affecting the others is impossible—confounds child care professionals and parents alike. Nowhere are the problems caused by the interrelatedness of cost, availability, and quality more clearly manifested than in infant care. As discussed in the articles by Hofferth and by Helburn and Howes, child care for infants is more expensive than care for children of other ages, it is likely to be of relatively poorer quality, and it is often harder for families to access. Many families that are dependent on two adult earners find themselves in a difficult situation: they cannot afford to have one parent stay home with a newborn, but they may not be able to afford child care for their infant either. Young adults often have neither the financial resources nor the job security to remain away from work for what is increasingly seen as a critical developmental period in their child’s life. Moreover, young couples who might wish to get a loan to cover parental leave would likely find that traditional private lending institutions are unwilling to provide such loans, especially because few parents with infants have assets to offer as collateral at this stage in their lives. All these factors suggest government intervention is warranted to provide good care for infants. A proposed solution, a self-financed child allowance...
The proposed child allowance plan would give an allowance (a cash payment) to the parent(s) for each of the three youngest children living in a household with income less than 175% of the poverty threshold (approximately $27,000 for a family of three in 1995). This payment could be used for any household purpose but would presumably be used primarily for the care of children in the household.

Benefits would vary with the number and age of the children within the household, as depicted in Table 1. A base or “full” allowance would be paid for children living in households with income less than 150% of the poverty threshold ($23,150 for a family of three in 1995), while children in households with income between 150% and 175% of the poverty line would receive an allowance equal to one-half of the full allowance. In families with annual household incomes less than 150% of poverty, the youngest, second youngest, and third youngest child under the age of six would receive base allowances of $4,000, $2,400, and $1,200 per year, respectively. First, second, or third youngest children who were 6 to 18 years of age would receive $1,200 per year.

In other words, the maximum amount that a family with a household income of less than 150% of poverty could receive would be $7,600 per year. The maximum for a family with a household income between 150% to 175% of the poverty level would be $3,800 per year (half the full allowance).

Child allowances would be taxable and paid quarterly. An important feature of the plan is that household income and the number and the age of children would solely determine benefits under the plan. The composition of income (whether earned or transferred [for example, from Aid to Families with Dependent Children or food stamps]), the level of family assets, and household structure (for example, parents’ marital status) would not affect the benefit level. Benefits would vary with income only with respect to the reduction in benefits at 150% of the poverty threshold. Households with income below 150% of the poverty line would experience no reduction in allowances with increases in household income.

The plan proposes that benefit levels decline with the number and ages of

### Table 1

<table>
<thead>
<tr>
<th>Maximum Child Allowance Amounts for Different Families</th>
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</thead>
<tbody>
<tr>
<td><strong>Family Income Is</strong></td>
</tr>
<tr>
<td><strong>Less Than 150% of Poverty</strong></td>
</tr>
<tr>
<td>(a)</td>
</tr>
<tr>
<td><strong>Child Under 6 Years Old</strong></td>
</tr>
<tr>
<td><strong>Child Under 6 Years Old</strong></td>
</tr>
<tr>
<td>First child</td>
</tr>
<tr>
<td>Second child</td>
</tr>
<tr>
<td>Third child</td>
</tr>
<tr>
<td>Additional children</td>
</tr>
<tr>
<td><strong>Maximum allowance per family</strong></td>
</tr>
</tbody>
</table>

*a Up to $23,500 per year for a family of three in 1995.

*b From $23,501 to $27,000 per year for a family of three in 1995.
children because research indicates that the per-child cost of rearing children declines as families get larger and children grow older. Nevertheless, the proposed allowances are more generous than those paid by existing programs such as AFDC. As implied above, for example, a family with a household income below 150% of the poverty threshold and with three children ages two, five, and seven would receive $7,600 per year. In comparison, average AFDC benefits for an adult and three dependent children in 1994 were about $4,400, and only five states paid more than $7,600 per year. Even if all three children in a household were school-aged (ages 6 to 18 years), the child allowances would equal $3,600, nearly 80% of the average AFDC benefit.

The child allowance program as proposed here would cost $45 billion per year. That is expensive, but it would cover more families than are currently covered by AFDC and, as Table 2 illustrates, it is a reasonably priced plan compared with some alternatives. Table 2 contrasts the estimated cost of the proposed child allowance program with that of a universal program that would pay full benefits to all eligible children independent of their household income. Under the proposed plan, more than 11.3 million families would receive child allowances covering 22.2 million children versus the roughly 5 million families and 9 million children currently covered by AFDC.

Table 2 also indicates the costs if the program were extended in a variety of ways. For

<table>
<thead>
<tr>
<th>Family Household Income as Ratio of Poverty Standard</th>
<th>Number of Families with Children (in Millions)</th>
<th>Expected Expenditures (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Alternative Plan: Universal Benefits</td>
</tr>
<tr>
<td>Less than 0.50</td>
<td>2.40</td>
<td>$ 10.954</td>
</tr>
<tr>
<td>0.50 to 0.74</td>
<td>1.77</td>
<td>7.711</td>
</tr>
<tr>
<td>0.75 to 0.99</td>
<td>1.80</td>
<td>7.860</td>
</tr>
<tr>
<td>1.00 to 1.24</td>
<td>1.76</td>
<td>7.715</td>
</tr>
<tr>
<td>1.25 to 1.49</td>
<td>1.82</td>
<td>7.259</td>
</tr>
<tr>
<td>1.50 to 1.74</td>
<td>1.80</td>
<td>7.091</td>
</tr>
<tr>
<td>1.75 to 1.99</td>
<td>1.92</td>
<td>7.457</td>
</tr>
<tr>
<td>2.00 to 2.99</td>
<td>7.26</td>
<td>27.361</td>
</tr>
<tr>
<td>3.00 to 3.99</td>
<td>6.33</td>
<td>21.963</td>
</tr>
<tr>
<td>4.00 to 4.99</td>
<td>3.91</td>
<td>12.676</td>
</tr>
<tr>
<td>5.00 and above</td>
<td>5.84</td>
<td>17.389</td>
</tr>
<tr>
<td>Total</td>
<td>36.61</td>
<td>$ 135.436</td>
</tr>
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</table>

This table illustrates the cost of the proposed plan ($45 billion) and of an alternative plan that would provide child allowance benefits to all families no matter what their income level ($135 billion total cost). In addition, the table illustrates what it would cost to extend the program to cover families of other income levels. For example, extending the program to include families that earn up to two times the poverty level would cost an additional $7.457 billion and would cover 1.92 million more families. In all instances, only the first three children in a family are assumed to be covered.

example, if the child allowance program were extended universally to cover the three youngest children in all families (no matter household income level), the cost would be $135 billion, three times the cost of the more modest proposed plan, and approximately equal to state and federal spending on Medicaid in 1993. Serving families up to twice the poverty level would cost $3.75 billion—less than 10% of the cost of the proposed program but roughly 15% of all government spending on AFDC in 1993.

Keeping the eligibility requirements the same (limited to families with household incomes up to 1.75 times poverty level), but extending the program to all children in the household, and not only to the three youngest children, would increase the cost of the program by $3.1 billion (not depicted in Table 2). Eliminating AFDC will pay for roughly half of the child allowance program. More children will be served under the child allowance program that offers higher benefits to the most vulnerable households (the poorest households and those with young children) than are currently served by AFDC; therefore, there is no reason to retain the AFDC program or the federal programs designed to subsidize child care for AFDC recipients. In addition, there would probably be some administrative savings through eliminating AFDC, though these are not included in Table 3.

The child allowance program can be financed by eliminating and redirecting the funding for many existing programs.

Table 3

<table>
<thead>
<tr>
<th>Potential Revenue Sources for Child Allowance Programs (in Billions)</th>
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<tbody>
<tr>
<td>Eliminate dependent child income tax exemption(^a)</td>
</tr>
<tr>
<td>Eliminate Aid to Families with Dependent Children</td>
</tr>
<tr>
<td>Eliminate dependent child care tax credit</td>
</tr>
<tr>
<td>Eliminate Title XX child care block grants</td>
</tr>
<tr>
<td>Eliminate child care subsidies for AFDC recipients</td>
</tr>
<tr>
<td>Eliminate at-risk child care</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

\(^a\)In 1994, the dependent child income tax exemption was $2,450, and there were 72 million children under the age of 18. This estimate assumes that 80% of the children under 18 are claimed as dependents at an average marginal tax rate of 20%.

Perhaps the most politically controversial source of funds listed in Table 3 is the proposed elimination of the income tax exemption for dependent children. This exemption currently benefits families with children regardless of their income levels. Estimating the cost of this tax exemption is difficult, but reasonable assumptions about the proportion of children covered and about the average marginal tax rate suggest that it is large enough to fund the remaining portion of the child allowance ($28.2 billion). The child care tax credit (the primary child care program of the federal government with current forgone revenues of $2.8 billion) should also be eliminated. (See the article by Stoney and Greenberg in this journal issue for a discussion of this tax credit.) Parents receiving these child care tax credits have the means to support their children and can do so in the absence of a government subsidy, as evidenced by the fact that they had to have paid for child care already to qualify for the tax credit. Families have children voluntarily, and those that can take care of them on their own should not be subsidized for the care of their children. On the other hand, low-income families do need some assistance with child care costs, and the child allowance offers low-income families the means to select from the broader menu of child care options available to more affluent households.

The Parental Leave Proposal

The child allowance program is designed to assist low-income families, but the limited availability and poor quality of infant care affects all families and calls for a broader policy. Under current law, the 1993 Family and Medical Leave Act gives employees in companies with 50 or more employees the right to take 12 weeks of unpaid leave. Therefore, most of the private (unpaid) parental leave benefits probably accrue to individuals in large companies. The proposed plan extends the right to an unpaid leave to all individuals and expands the length of the leave to 12 months following the birth or adoption of a child. The plan will be implemented through a parental leave account (described below) comprising a payroll tax and government loans.

The parental leave account (PLA) is a savings account combined with a line of credit from the federal government. Essentially, families would be able to use the funds in these accounts to cover the cost of a one-year leave from work after the birth or adoption of a child. In addition, individuals could borrow against their leave accounts to cover other financial emergencies during the first two years of the lives of their children. If families did not have enough dollars in their accounts to cover the cost of the leave, the federal government would extend a low-interest loan to them, which they would have to pay back.

A parental leave account would be created when an individual of either sex obtained a Social Security number. An additional payroll tax of 3.5%, approximately one-quarter of the current Social Security payroll tax, would be deducted from the individual’s earnings and credited to the individual’s PLA with each paycheck. At the birth or adoption of a child, parents could borrow against their accounts for one parent to remain home for up to 12 months to care for the child. Individuals would be able to borrow up to 80% of the present value of their expected Social Security benefits. For example, an individual earning $25,000 today could borrow up to $70,000, across several leaves.

Parental leave accounts (PLAs) would earn tax-deferred interest at a rate equal to the rate of inflation plus 2.5%. Individuals with funds in their PLAs would earn interest on their accounts, while debtors (those who have drawn down their accounts and borrowed from the government for their leaves) would be charged interest.

The PLA is the mirror image of a college savings plan. In a college savings plan, parents typically have at least 18 years to save for their child’s education. With PLAs, the parental leave (and the expenditure) occurs first, and the funds are paid back as the child...
It is anticipated that the PLAs of many parents would carry negative balances during parents' childbearing years; that is, parents would borrow against their accounts to finance their leaves. Upon retirement, the balance of the PLA would be transferred to a modified Social Security system (described below). Thus, individuals who, upon retirement, had positive cash balances in their PLAs would receive enhanced Social Security benefits, while individuals with negative balances in their accounts would receive reduced Social Security benefits, although all recipients would be guaranteed a minimum level of benefits.

A few examples will clarify how the program is intended to work. Table 4 illustrates the PLAs of families with different numbers of children, born at different times during the couple's relationships. The examples assume that real earnings are constant and that partners face the same earnings profile over their careers. The value of the PLA at retirement (age 65) is reported two ways—in terms of the annual household income and as a percentage of annual Social Security benefits. The first measure helps clarify the resources of the household needed to balance the PLA before retirement, while the second measure describes the potential effect of this account on retirement income.

Case A represents a continuously married couple with two children (born when parents were ages 24 and 27). The couple shares equally the cost of the two one-year leaves, each of which is equivalent to one partner's salary for one year. Except for the duration of the leaves, both parents are assumed to work full time from age 18. The couple has a positive balance in their PLAs before the birth of its first child, when one parent takes the first of two leaves. The couple slowly pays back the cost of the leaves over the next 27 years. After age 54, when the cost of the leaves is repaid, the couple once again has a positive balance in their PLAs. At retirement, the balance in the PLAs is slightly less than one year's annual

<table>
<thead>
<tr>
<th>Case</th>
<th>Description</th>
<th>Years Until Payoff</th>
<th>Balance of Parental Leave Account at Age 65</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>As Fraction of Annual Income</td>
</tr>
<tr>
<td>A</td>
<td>Married couple having two children at ages 24 and 27</td>
<td>27</td>
<td>0.8</td>
</tr>
<tr>
<td>B</td>
<td>Married couple having two children at ages 27 and 30</td>
<td>20</td>
<td>1.3</td>
</tr>
<tr>
<td>C</td>
<td>Single woman with one child at age 35</td>
<td>9</td>
<td>1.0</td>
</tr>
<tr>
<td>D</td>
<td>Married couple having three children at ages 21, 24, and 27</td>
<td>—</td>
<td>-2.2</td>
</tr>
</tbody>
</table>

All examples assume parents are the same age and have constant earnings and work full-time from the ages of 18 to 65, except while on parental leave. A payroll tax of 3.5% on parental earnings funds the contribution to the Parental Leave Account (PLA). PLAs earn 2.5% (real) interest.

PLAs as a percentage of Social Security benefits represent the annual flow of a 10-year annuity and assume Social Security benefits replace 40% of preretirement earnings.

employment income (approximately 87%) and will augment the couple's annual Social Security income by nearly 25% (for the first 10 years of retirement, assuming that the balances in these accounts are paid out as 10-year annuities).

To show the importance of the timing of the births, Case B is similar to Case A, except that it assumes that the two children are born later in the lives of the parents, when the parents are 27 and 30 years of age. In Case B, the balance at retirement is 1.3 times annual income, or 36% of Social Security income. By postponing the first birth by three years, couple B accumulates a larger balance in their parental leave accounts, necessitating a smaller loan to finance the two one-year leaves. Instead of taking 27 years to cover the parental leaves as in Case A, Couple B requires only 20 years.

In Case C, a single woman has a child at age 35 and finances a one-year leave with no contributions from her partner. Again, through the wonders of compound interest, the woman's early contributions grow to almost cover a year's leave. It takes only nine years, until the mother is age 44, to cover the cost of the leave and to produce a substantial balance at retirement—an amount equivalent to about one year's annual employment income, or 28.8% of the Social Security income.

The previous example shows that even a single parent can finance a one-year leave, assuming that the parent works full time and delays childbearing. Early leaves are costly to finance because parents must pay 2.5% interest (in real terms) on the parental leave loans. Case D illustrates what happens if childbearing is not deferred. Case D is similar to Case A, but adds a birth at parental age 21 to those at ages 24 and 27. With three births during their 20s, couple D generates a large deficit in their PLAs. The couple's annual tax contribution barely pays the interest on that debt, and the deficit declines slowly during their subsequent working years. At retirement, the PLA is still in deficit, equal to 2.2 years of employment income or 62.9% of annual Social Security income. Without other forms of saving, high early fertility will destine the couple to a negative PLA and a significant reduction in retirement income.

The Social Security system is the natural home for administering the parental leave program, although some changes in the current structure of the Social Security system will be necessary. The Social Security system should be restructured into two distinct social programs. The first, which is a continuation of the current Social Security program, will be a pure income transfer program that provides a safety net to the poor and the disabled. All individuals, even those who have a negative parental leave account balance upon retirement, will be entitled to a minimum benefit level paid through this component of the system. These payments will be funded out of current tax revenues, just as today's Social Security payments are. The second component will be a pure insurance system that offers earnings-related benefits on an actuarial basis. In this component, individuals' benefit levels will be directly tied to the amount they have paid into the system. Private insurance companies offer such programs, and it might be possible for the eventual system to be a mixture of public and private programs, which would permit individuals to opt out of the public system with proof of coverage by a qualified private program.18

Except for individuals with many children (and many leaves) early in their lives or those with short or limited work histories, most individuals will accrue positive balances in their parental leave accounts by the time they retire. The program is intended to be gender-neutral; both men and women will be taxed, with partners, not the state, deciding which partner's account should be debited for the leave. There is no presumption that the woman will necessarily take the leave and be the caregiver. In states with community property laws, it seems reasonable that the financial responsibility for the leave would probably be split equally between the two PLAs of the partners. In case of divorce or separation in such states,
the positive or negative balances would be the joint responsibility of the couple.

The PLA approach is new, and it will take some time for parents to grow accustomed to it. Some education may be necessary to help parents understand their rights and responsibilities regarding the leave.

The parental leave account will permit all families, even single parents, to provide infant care. This system will also give families the opportunity to provide parental care for short periods when emergencies arise and other forms of care are not available.

Evaluation of Proposals and Their Likely Consequences
Any assessment of these plans or other proposed alternatives should examine their likely political feasibility as well as their likely effects on child care and on participating families.

Political Concerns
The current political climate will not tolerate massive expansion of public programs for even the best of causes. Therefore, the proposals in this article suggest spending reductions or redirections rather than revenue increases for the child allowance. New revenues are needed for the parental leave program, but these are private, not public, dollars. The government’s role in the parental leave program is to lend money to parents and to legislate that employers must guarantee postleave employment. Responsibility remains in the hands of families. Loans must be repaid or those who retire with negative parental leave account balances will live their retirement years on the guaranteed minimum Social Security benefit.

In at least one sense, that of encouraging work, the child allowance proposal is clearly preferable to the current AFDC system. Under the child allowance program, work disincentives, to the extent they arise, are concentrated only at the 150% or 175% of poverty thresholds. Program benefits are unaffected except at those points. Low-wage workers could work full time without any reduction in child allowance.

Finally, another potential political objection to the child allowance program centers on whether it will increase the number of children born to poor households. Such concerns have arisen in recent discussions of welfare reform. It is exactly to avoid this very emotional political debate that this proposal limits child allowance benefits to the first three children in the household; therefore, this proposal is preferable to the current AFDC program.

Effects on Child Care
The proposed plans would have effects, largely indirect, on child care quality, availability, and cost.

Child Care Quality
The child allowance plan proposed here seeks to improve child care quality indirectly rather than directly. By placing dollars in the hands of parents, who have the best interests of their children at heart, the child allowance should result in an eventual increase in child care quality as parents use the funds to choose higher-quality care. The
parental leave account should increase the quality of care children receive by allowing a parent to remain at home and care for a newborn.

Alternative approaches to improving the quality of child care services focus on either increasing direct subsidies to the child care system, increasing regulations associated with child care quality, or tying public expenditures to programs that meet certain standards or are regulated, but each of these approaches has flaws. For example, subsidies such as the Child and Adult Care Food Program are more tightly targeted expenditures that do directly improve the infrastructure of the child care delivery system, but expanding these sorts of subsidies would be prohibitively expensive, and there is no guarantee that child care programs would use the dollars in a way that would improve quality (for example, to increase staff training or wages or to buy more appropriate curricular materials).

Existing regulations for child care programs could be tightened and enforcement enhanced, but this will not produce better quality without also raising costs. Few resources are currently devoted to monitoring child care programs. As Hofferth reports in her article in this journal issue, in many states authorities visit centers only once or twice a year; inspection of family child care homes occurs less frequently, if at all. The limited coverage of the existing regulations and the laxity of their enforcement suggest that the current regulations probably have little influence on the quality of care provided, but it is not at all clear that more stringent controls would produce better results. After all, if even parents, who have very strong incentives to determine the quality of the setting in which their children are placed, face large barriers in ascertaining the quality of care, would not regulatory agencies face exactly the same barriers? Tightening regulations is more likely to raise costs than to improve quality, as more stringent regulations will require the development of an extensive and costly system to monitor and enforce the standards. In addition, if successful, the increased regulatory effort might increase the cost of regulated care and drive some parents into the unregulated sector.

Finally, some suggest that public dollars should be restricted to child care providers who are licensed or regulated by or registered with the state, but again, this will not necessarily improve quality, and it may run counter to the wishes of some parents. For example, a relative may not be licensed and therefore would not be eligible to participate in some subsidized programs; yet the parent might know and trust the relative to offer high-quality child care.

The root problem of the child care system is the inability of parents to pay for care, not an inability to recognize quality care or a desire to use poor care. Consumer subsidies, such as those that would be provided through a child allowance, protect parental freedom of choice over the care and upbringing of their children, and would do more to promote child care quality than would tightening regulations.

**Child Care Price and Availability**

Both the child allowance and parental leave programs will affect the supply of and demand for child care. The child allowance, for example, will increase the demand for child care among the targeted low-income population, and consequently, the price and the availability of child care will probably increase within low-income neighborhoods. Because many nonprofit child care providers (currently the primary center-based providers of child care in low-income communities) operate their programs in donated space, they may not be able to expand services easily. (See the article by Helburn and Howes and Appendix B in this journal issue for additional discussion of child care facilities in low-income communities.) Therefore, the increased demand and associated higher price is likely to be met by for-profit center-based providers or by an expansion of family child care or relative care.

The leave expands the options available to parents and is therefore equivalent to an
increase in the provision of child care services for infants. On the one hand, as parents make use of their parental leave accounts and stay home to care for their infants, market demand for infant care will decline as will the price of infant care. Some providers offering infant care may decide instead to serve other children (for example, toddlers), so it is likely that the availability of child care for toddlers and preschoolers will increase. If parents on leave also decide to become family child care providers, the supply of family child care providers will increase, thereby driving down the price of family child care.

On the other hand, the observed price of infant care may increase following the enactment of the parental leave, if parents who have the resources to pay the most for infant care (for example, high-earning professionals) decide to forgo their leaves because they believe that taking a leave would harm their careers or their financial futures. In such a scenario, individuals who would take leaves would be those paying less for infant care. As a result, the observed market price of infant care would reflect primarily those still in the market for infant care (the high end of the market) and thus would increase.

**Effects on Families**

The two financing proposals will also affect families: Both plans put more money into the hands of parents, and that should improve family welfare.

For example, the government loan guarantees through the parental leave program increase access of families to the credit market. Individuals already have some access to credit markets, mostly through credit cards and home mortgages, but private lenders are unwilling to make unsecured loans of the size necessary to finance a year-long parental leave. Parents can save in anticipation of their future childbearing, but most are probably unwilling to postpone childbearing long enough to accumulate sufficient assets to cover a 12-month leave. The availability of guaranteed government loans increases parents’ access to the credit market, distinguishes the parental leave plan from a pure savings plan, and makes this a viable program to assist a large number of families.

Once in the hands of families, dollars from parental leave accounts or child allowances can be used for any purpose. That is one of the strengths of these proposals because it ensures that decisions about any one child’s care remain in the hands of those individuals who are best able to make decisions that will benefit the child. Nevertheless, because child care expenses take such a large percentage of household income for poor households, it is expected that a primary use of the child allowance, for example, will be to cover these expenses.

Similarly, there is no guarantee that money drawn from a PLA would be used to finance a parental leave. Parents, might, for example, use some of the funds from the parental leave account to pay for subsequent child care or other expenses.

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**The child allowance permits and encourages parents to become lifelong participants in the labor force.**

In effect, the PLA provides a general line of credit for families to address any crisis or emergency over the first two years of the lives of their children. Although some abuses may occur, the PLA proposal is still better than the current situation, which affords parents almost no assistance during the first critical year following childbirth or adoption. Using this plan, a foundation can be laid for stronger and financially healthier families in the future.

**Other Consequences**

The two plans will likely have other consequences for the economy and society. For example, by removing the most pernicious disincentives for work in the current AFDC system, the child allowance permits and encourages parents to become lifelong participants in the labor force. The increased earnings from these households will generate additional tax revenue to help offset the cost of the program.

The parental leave plan would similarly affect the economy and society, including employers, the labor supply, and savings
rates. To make the parental leave plan operable, employers must guarantee their employees a job when the employees return from their leaves. In the short run, large establishments are likely to face little burden in making this guarantee, but small business establishments have less flexibility in arranging staffing needs and will face significant challenges. Assuming women are the primary leave-takers, women may suffer in the short run if small firms attempt to avoid the adjustment cost of the leaves by hiring fewer women. In the long run, the experience of European countries suggests a more optimistic future may result: Firms will learn how to restructure their work assignments and will develop management techniques to operate with a flexible work force.26

The PLA is likely to decrease the labor supply of parents with an infant. Indeed, the intent of the program is to permit parents the opportunity to be with their children during this important developmental period. Except for the possible increase mentioned above in family child care home providers, fewer parents with infants are likely to be in the workforce. But, as their children grow older, parents will be encouraged to work under the parental leave program. As the examples in Table 4 illustrate, parents can most easily finance the leave if both parents are gainfully employed for a large segment of their working careers. Thus, the parental leave program should have the added effect of increasing the labor supply of parents over their careers. Indeed, international comparisons suggest that the countries with the most generous parental leaves (for example, Sweden) also have the highest level of female labor force participation rates.27

The level of the payroll tax for the parental leave program is also likely to affect the economy. If the PLA payroll tax rate is too high, families might be forced to save more than they desire, which, in turn, could become a brake on the economy and slow future growth. If the PLA tax rate is too low, parents might take shorter leaves or more families might end their working careers with negative PLA balances and, consequently, with reduced Social Security benefits. Setting the payroll tax rate for the parental leave program at 3.5% is a fiscally conservative proposal that balances the needs of families with the needs of the overall economy.

For childless individuals, the PLA would be a form of forced savings (one that is better than the current Social Security system because, in the proposed plan, benefits are tied to contributions). Individuals without children would be unaffected as long as the tax rate used to finance the leave was less than what they would have liked to save anyway.28

Conclusion
For many families, the child care system works well enough. For children of low-income families and for infants, however, the child care system functions poorly. A child allowance program targeting low-income households will provide adequate income support and will help ensure that the child care market works to generate adequate and affordable quality child care. A parental leave program will offer parents the opportunity to be with their children during the first year of their child's life. The programs advocated in this article can be financed at no increase in public expenditure.

2. The Cost, Quality, and Child Outcomes in Child Care Centers study reports that full-time infant care costs $450 per month while care for a preschooler costs $372 per month. Helburn, S., ed. Cost, quality, and child outcomes in child care centers: Technical report. Denver, CO: Department of Economics, Center for Research in Economic and Social Policy, University of Colorado, 1995. See also the article by Helburn and Howes in this journal issue.

5. The rules regarding the recognition of income are less severe during the first year on welfare. After the first year, the income threshold equals $90 per month for work expenses plus monthly child care expenses up to $175 ($200 for a child under the age of two).


10. See note no. 9, 1994 green book, Table 10–22.

11. In 1993, federal and state Medicaid expenditures were $75.8 billion and $56.2 billion, respectively, for a total of $132 billion. See note no. 9, 1994 green book.


13. The child allowance program's simple eligibility and benefit rules will be less costly to administer than is the AFDC program. Likely administrative savings are not listed in Table 2 because they are too difficult to estimate precisely, but the AFDC program cost $3 billion to administer in 1993.


15. Under current law, the employer and the employee each pay 7.65% (for a total of 15.3%) of the individual's first $60,600 in earnings to the Social Security system.

16. This estimate assumes that the individual is earning the average amount for the current system and that there are no changes in the structure of Social Security benefits in the coming years. Calculations are available from the author upon request.


18. Opting out would be possible with one qualification that concerns a well-known problem of all insurance markets: The individuals who are least costly to insure (for example, non-smokers and defensive drivers) attempt to separate themselves from more costly individuals, and insurance companies seek to identify and serve the best risks. Permitting individuals to opt out of the Social Security system may leave only the most costly in the public system. The costs of this adverse selection must be balanced against the cost of inefficiencies generated by a government monopoly.


21. Other data, including that reported in the article by Helburn and Howes in this journal issue, indicate average child care quality is higher in states that have more stringent regulation.


23. Currently, relatives may receive subsidies but generally must comply with some licensing or regulatory requirements. Providers not required to be regulated usually must be registered with the state to receive funding.


25. The parental leave accounts are not necessarily a great savings mechanism for most individuals because the rate of interest is low and severe penalties are imposed for nonrepayment. However, young couples and others with little collateral can use these accounts as a guaranteed loan program and thereby get access to credit they cannot obtain through private lenders.


28. For example, an individual who prefers, in the absence of the program, to save 5% of his income will, upon enactment of the parental leave, still save 5% of income but will adjust his asset portfolio knowing that 3.5% of his income will be held in a risk-free low-interest (2.5%) bond.